Zeina Nasreddin: Good afternoon, everyone, and thank you for joining us today. This is Zeina Nasreddin on behalf of Arqaam Capital, I am pleased to welcome you to Gulf Bank's first quarter 2018 earnings conference call. I have here with me today, Tony Daher, Chief Executive Officer, Kevin Smith, Chief Financial Officer, and Dalal Aldousari from investor relations. Without any further delay, I will now turn the call over to Dalal.

Dalal Aldousari: Thank you, Zeina. Welcome to Gulf Bank's first quarter 2018 financial results conference call. My name is Dalal Aldousari from Gulf Bank's investor relations team. With us on the call today is Gulf Bank's Chief Executive Officer, Mr. Tony Daher, who will be presenting the key highlights of the bank's performance during the first quarter of 2018. Also with us on the call is the Chief Financial Officer, Mr. Kevin Smith, who will cover more details on the financial results. The presentation will be available at our corporate website, www.e-gulfbank.com, and will be disclosed to Boursa Kuwait early Sunday morning. After the presentation, we will offer the floor for Q and A. Please note that we can only comment on inquiries and information that are disclosed publicly. I would like to draw your attention to the disclosure on page two of the presentation, with respect to forward looking statements and confidential information. Please feel free to reach out to our investor relations team at investor.relations@gulfbank.com.kw if you have any further inquiries. Tony?

Tony Daher: Thank you, Dalal. Good afternoon. I'm very happy to be with all of you today to share some brief highlights of Gulf Bank.

Our first quarter 2018 financial results continue to show strong momentum on the heels of very strong results in 2017.

As you can see from page 3, our net profit grew by 15% in the first quarter of 2018 compared with the first quarter of 2017. This growth rate is an acceleration of the 12% growth rate achieved in 2017 and the 10% growth rate in the three preceding years from 2013 to 2016.

On page 4, we obtained approval at this year's annual shareholders meeting in March to pay a cash dividend of 9 fils. This cash dividend was 29% higher than the 7 fils paid in 2017 and more than double the 4 fils paid two years ago. Furthermore, based on our 2017 net profit of KD 48 million, this dividend meant that 55% of our earnings were paid out in cash to our shareholders. That payout ratio was above the industry average of 50%.

Turning to page 5, we wanted to lay out the progression of our credit ratings from the four major credit rating agencies. We've circled in green the upgrades by rating agencies since 2013. With the most recent upgrade by Capital Intelligence to A- with a stable outlook, we are now rated 'A' by all four of the credit rating agencies. As you can see, we are rated A3 by Moody's with a stable outlook, A- by S&P with a positive outlook, A+ by Fitch with a stable outlook, and A- by Capital Intelligence with a stable outlook.

On page 6, we've provided an overview of our two key business segments, consumer banking and corporate banking. Our core strategy remains focused on serving the existing and evolving needs of customers in these segments that do business in Kuwait. This also involves supporting international contractors who are doing business in Kuwait. We achieve diversification not only through these broad business segments, but also by delivering products and services tailored to meet the needs of our Consumer Banking sub-segments (that is, Priority Banking, Private Banking, etc.) and the industry-specific needs of our Corporate Banking customers.

Now I'll turn it over to our CFO, Kevin Smith, who will cover the financials. Thank you.

Kevin Smith: Thanks, Tony. To start off, I would like to turn to page 7 which shows the balance sheet progression from the 31st of March 2017 to the 31st of March 2018. This page also shows the mix of assets and liabilities and how that has changed over the last 12 months.

First, I would like to focus on Assets which are shown on the top half of the slide, line items 1-13.

On the 31st of March 2017, we had KD 5.6 billion of assets which is shown on line 13. You can see on line 5 that 31% of these assets were held in the form of liquid assets, 63% in net loans, shown on line 8, 2% in investment securities which is shown on line 9, and 4% in other assets, shown on line 12. Over the course of the last year, our assets grew by KD 120 million to KD 5.7 billion, but the mix of our assets changed significantly. You can see that our liquid assets, line 5 on the far right, shrank by KD 235 million or 14% while our net loans, line 8, grew by KD 399 million or 11%. So, the majority of our loan growth was funded by excess liquidity. However, our liquid assets are still a healthy 26% of our balance sheet while our net loans now comprise 69% of our total assets.

Investment securities, which is shown on line 9, remained at 2% of total assets.

Other assets, line item 12, shrank by KD 40 million mainly driven by selling repossessed collateral and 'other assets' now represent 3% of total assets.

On the bottom half of the slide, you can see on lines 19 and 20, on the far right that, of the KD 120 million in asset growth over the period, KD 99m was funded by liabilities while KD 21 million was funded by equity. Roughly half of the liabilities growth was driven by deposits from financial institutions while the other half came from other liabilities.

Average assets and average equity are shown on line items 22 and 23, so we can calculate our first quarter return on assets and return on equity.

Page 8 shows our key liquidity ratios. On the left side, you can see that our Liquidity Coverage Ratio increased from 166% in the first quarter of 2017 to 268% in the first quarter of 2018. These ratios are well above the minimum of 100% that comes into effect on the 1st of January 2019. In 2018, the minimum is 90%. In addition, the new NSFR ratio is also above the minimum of 100%.

So, even though we've squeezed out some excess liquidity, we still have a buffer in both ratios.

Page 9 shows our income statement and some other key metrics. To give you context, we are showing you the full year results for 2016 and 2017 on the left-hand side as well as the first quarters in 2017 and 2018 on the right-hand side. In addition, for the first quarter of 2017 and 2018, we are showing the composition of our return on assets and those are shown under the columns marked '% of average assets' for both quarters.

As Tony mentioned, you can see from the circled percentages on line 10 that our Net profit grew by 10% and 12% in 2016 and 2017, respectively. As Tony also mentioned, the growth rate in Net profit for the first quarter of 2018 vs. the first quarter of 2017 accelerated to 15%. If you move up the income statement and look at the circled percentages on lines 3, 5 and 7, you can see that in 2016, Net Interest Income on line 3 declined by 2%, Operating Income on line 5 was flat, and Operating Margin on line 7 declined by 3% compared with 2015. You can see that this turned around in 2017 as the growth rate in our Net Interest Income went from -2% in 2016 to 13% in 2017, the growth rate in our Operating Income went from zero in 2016 to 8% in 2017, and the growth rate in our Operating Margin went from -3% in 2016 to 11% in 2017.

In the first quarter of 2018 vs. the first quarter of 2017, we accelerated the growth rate in our Net Interest Income to 23% and maintained the growth rate in Operating Income and Operating Margin as both grew by 9%. I've circled all those percentages on page 9, so you can see the historical trend and recent momentum.

This turnaround in Net Interest Income, Operating Income, and Operating Margin were driven primarily by the strong net loan growth of 11% previously mentioned as well as expanding net interest margins.

You can see the net interest margin improvement by looking at net interest income, line 3, under the column marked '% of average assets'. In the first quarter of 2018, our NIM reached 2.62%, 42 basis points higher than the first quarter of 2017 NIM of 2.2%.

In terms of operating expenses, shown on line 6, our objective is to have sufficient capacity to run the bank and fund important initiatives in the Bank in such a way as to ensure that the growth in operating expenses doesn't outpace the growth in our operating income. In other words, drive a lower cost to income ratio over time.

You can see this play out in our cost to income ratio on line 12. In 2017, our operating income grew by 8%, but our operating expenses only grew by 2%. As a result, our cost to income ratio fell from 37.5% in 2016 to 35.4% in 2017.

Similarly, in the first quarter of 2018, our operating income grew by 9% whereas our operating expenses grew by 7%, leading to a reduction in our cost to income ratio from 32.7% in the first quarter of 2017 to 32.3% in the first quarter of 2018. So, our first quarter cost to income of 32.3% is nearly 10% below our full year 2017 cost to income ratio of 35.4%.

On line 8, Provisions and impairments in the first quarter of 2018 were KD 21 million, 6% higher than the first quarter of 2017.

In terms of return metrics, under the columns labeled '% of average assets, at the bottom of the column, you can see that our return on assets in the first quarter of 2017 of .69% improved to .77% in the most recent quarter. Similarly, on line 11, you can see our return on equity also improved from 6.7% to 7.4% over this same time period.

Page 10 shows the progression of our non-performing loan ratio. On the 31st of March 2018, the ratio stood at 2.2%, down from 3.1% in March 2017. You can see that we have continued to work this ratio down and it has come down dramatically over time.

On page 11, our regulatory capital and leverage ratios remain well above their respective minimums. The reduction in the ratios from the first quarter of 2017 is a result of the numerators, that is, Tier 1 and total capital, growing at 4% after 55% of our dividends were paid out whereas the denominator, which is risk weighted assets, grew at a much faster 13% pace, mainly driven by our loan growth over this period. Please keep in mind the KD 11 million in first quarter 2018 Net profit is not included in Tier 1 or total capital in the first quarter 2018 ratios. That happens at the end of the year. Tier 1 capital still comprises nearly 80% of our total capital.

As you can also see on the bottom right, the leverage ratio increased from 8.3% to 8.5% at the end of the first quarter in 2018. and remains well above the regulatory minimum of 3%.

In summary, the turnaround in the growth rates we saw in Net Interest Income, Operating Income, and Operating Margin in 2017 continued to drive momentum for us in the first quarter of 2018.I'd like to hand it back to Dalal for the Q and A session.

Dalal Aldousari: Thanks, Kevin. Now we are ready for Q and A. Let's take the first question.

Operator: Ladies and gentlemen, if you wish to ask a question, please type your question into the ask a question text area, then click the submit button. Thank you for holding.

Dalal Aldousari: We have a question from the audience. With possible interest hikes this year, should the NIMs improve?

Kevin Smith: Yeah, in terms of the interest rate hike that we just saw in March with the central bank following the Fed in late March, 25 basis points increase, yeah, a significant amount of our loans are floating rate. So initially we would expect an improvement in NIMs. Obviously, I'll just caveat that with the fact that we don't know where we're going on cost of funds and obviously if we see pressure on KD cost of funds then any additional credit loss is coming from borrowers who can't absorb those increases, that could mute the impact. But clearly, we would expect at least in the short term, expansion in our NIMs.

Dalal Aldousari: We have another question. What is the NPL percentage is the bank targeting for 2018?

Kevin Smith: Obviously this is a function of the credit environment. Based on where we are now, I'd say the biggest impact we are expecting is there is a significant NPL that currently exists as part of the 2.2 percent. We are expecting that loan to get resolved this year. That should create some downward opportunity. But again, we don't know any upward pressure based on the credit environment. So as far as target for 2018, I would say if we could say sort of in the neighborhood of the two percent range, we're gonna be in pretty good shape.

Dalal Aldousari: We have another question. Any insight into the increase in impairment loss on other assets? What led to this?

Kevin Smith: Yeah, let me cover that. I believe what the questions relates to is the six million that was charged in impairments in the first quarter of 2018. That relates to valuation adjustments on our repossessed collateral balance. And you might have seen this disclosed in note 12 of the financials. This is why the repossessed collateral balance actually declined from 79 million at the end of 2017 to 73 million. So that reflected that six million valuation adjustment. That had nothing to do with the actual sale of the collateral. That's just a valuation adjustment as far as the general reserve.

Dalal Aldousari: Another question. When you will announce loan Fahaheel settlement and what the P&L effect?

Kevin Smith: Yeah, it's a great question. I think based on the disclosures we've made to date, in early April, the appellate court ruled in our favor on awarding the land in an auction that took place earlier this year. This is good news for the bank. We started the process of transferring the land in the name of Gulf Bank. Hard to tell how long that's gonna take, but in terms of the financial impact, that'll be determined after the ownership of the land is legally transferred in our name and disposed of during the legally prescribed period based on a CBK regulation. So we can't really say what the impact is gonna be. But we do believe that it's going to be a material impact.

Dalal Aldousari: Another question. Given the loan deposits growth, most of the loan growth is driven by higher LDR. How sustainable your loan growth is?

Kevin Smith: From a liquidity perspective, we feel as though we've got a fairly high sustainable growth rate on loans. Because of our diversified franchise and gathering deposits from retail customer and treasury customers, diversification in terms of business and diversification in terms of time deposits, current accounts and savings accounts. We feel we're positioned very well to match any loan growth that we're seeing with deposit growth. And we try to do that steadily but surely over time to run the franchise the right way, so as to not turn off and on the lights too much, because that can be fairly disruptive. So the goal really is steady growth on both sides of the balance sheet in terms of loans and deposits. We don't feel that given the liquidity in the market right now that's a major constraint for us.

Dalal Aldousari: Another question. What kind of growth can be expected on the loan book in 2018 and 2019? Do you expect market share gains going forward?

Tony Daher: As you may know, the market is fairly flat when it comes to loan growth. The overall market in Kuwait is fairly flat. Our expectation for the market is to be growing between three and five percent, going forward. And that's the kind of loan growth we would be expecting as well. Do we expect market share gain going forward? The answer is our goal is to grow in line with the market and if the opportunities present themselves, slightly ahead of the marketplace, but not by too much.

Dalal Aldousari: Another question. What is your targeted CAR (capital adequacy) ratio?

Kevin Smith: As we talked about on slide 11, right now we're at 17 percent. Minimum is 14 percent, so we have a pretty comfortable buffer of 300 basis points. I think from my perspective, obviously to be conservative we'd like to hold onto a buffer. We still think that that's probably a pretty decent buffer. Having said that, if we can continue to see growth opportunities on the loan book and risk weighted assets, we should be able to sustain that just with internal generation of earnings. As long as the loan growth doesn't exceed mid single digits, high single digits, we should be able to sustain that without putting much downward pressure on that buffer.

Dalal Aldousari: Another question. Provisions improvement to reflect bottom line will gradually happen over the next quarter, or will happen immediately?

Tony Daher: Imminently.

Dalal Aldousari: Imminently.

Tony Daher: We think it's the former. We think the provision improvements will be reflected to the bottom line in a gradual manner. In the next quarters.

Dalal Aldousari: What's our ROE target?

Kevin Smith: On page nine we can see 2017 we were just north of eight percent. Over time, we'd really like to get to 10 percent. It might take us a year or two to get there, of it gradually, we believe that's very critical. Because after a dividend payout ratio between 50 and 50 percent, that creates a sustainable growth rate in our risk weighted assets and our loans of about five percent without pushing us to issue more equity at sometimes uncertain market conditions. So 10 percent feels about right, in terms of a target.

Dalal Aldousari: We have another question. Do you expect any further improvement in cost of income ratio going forward compared to current levels?

Kevin Smith: Yeah, again, I think as I mentioned on page nine, this is a really important ratio for us. And a lot of this is really driven by the top line and clearly we get more capacity, the fast we can grow that top line. But we are very cost conscious. And again, the whole goal is to make sure our operating expenses don't outpace the operating income. So given that that's really how we manage the business, we do expect further improvement in that cost income ratio.

Dalal Aldousari: We have another question. What is the reason behind the increase in general provisions charges from almost three million in Q1 '17, versus KD 16 million in Q1 of 2018?

Kevin Smith: Okay, let me try to start the answer to that question by referring to page 13, which is the details in the income statement, just to put that question into context to make sure what's being asked. Let me start with the major difference between the first quarter of '17 and '18 that our recoveries net of write offs were 17 million higher in 2018 first quarter versus 2017 first quarter. And that was partially offset by the higher impairments that we talked about. The six versus two million. That allowed us to increase our general provisions by 13 million more in the first quarter of 2018 versus the first quarter of 2017. So that's really the reason why we increased the general provision, is because of those recoveries that were higher in the first quarter.

Dalal Aldousari: Another question. Do you expect additional impairments on collateral going forward?

Kevin Smith: I think the biggest impact we anticipate going forward is what we talked about before, as far as the Khabary transaction, especially as it relates short term to 2018. I can't comment on what's beyond 2018 right now that I don't have a line of sight on for obvious reasons. But that is the biggest impact. But that will actually go the other way. It won't be an impairment, it'll actually be a recovery, we believe, based on the value of that land relative to our book value. So in fact, we actually expect additional recoveries in 2018. I don't see anything right now that would result in any major impairments, unless we saw a deterioration in the real estate collateral market in Kuwait.

Dalal Aldousari: We have a question. Is it fair to assume 11 fils dividend for 2018?

Tony Daher: We showed you on page four of the presentation, the cash dividends that the bank distributed in 2015, '16 and '17. We obviously cannot make a forward looking statement, and we will not make any comments on what the number will be in 2018. However, it is our intention and strategy as a management team to be a consistent dividend payer over years and years because we think that is the right thing to do and that is what our shareholders and stakeholders are expecting from us as well.

Kevin Smith: Yeah, let me just make one other comment in addition to what Tony said. An increase in the dividend from nine to 11 is a 22 percent increase. So we need to just take a look at ... It's gonna depend on our earnings. We're already at the top end of the dividend payout ratio.

Dalal Aldousari: We tried to answer and cover as many questions as we could, but there are some we couldn't get into due to time constraints. We would like to thank you for your participation today. If you have any further inquiries, you may visit our investors relations page at our corporate website, www.e-gulfbank.com. You can also reach us at our dedicated investor relations email investor.relations@gulfbank.com.kw. Thank you.

Operator: Ladies and gentlemen. This concludes today's conference call. Thank you all for your participation. You may now disconnect.